

Panel: Military Compensation: A New Look at an Old Challenge.

Hale, Linda Pappas, Hay Associates, Washington, D.C. (Chair); CPT Thomas Hale, USN, Office of Chief of Naval Operations, Washington, D.C.; Peter Oglobin, Office of the Secretary of Defense/MPP, Washington, D.C.

The military compensation panel addressed the topic:

"Military Compensation: A New Look at an Old Challenge." The panel discussion examined three essential areas - military compensation philosophy, the pecuniary rewards, and nonpecuniary rewards - and developed recommendations for adjustments in the compensation system. It addressed making proper military manpower and force management decisions based on a thorough understanding of military compensation philosophy. Additionally, an understanding of pecuniary rewards, how they can be adjusted, and their relationship to manpower supply is basic. Finally, new and creative uses of nonpecuniary (noncash) compensation were considered for a compensation system competitive with the private sector.

A thorough overview of the military compensation system's cash rewards was presented. Their definition and raison d'être provided the audience with a sound appreciation of the complexities of the military compensation system and highlighted two of the system's short comings: lack of a theory of compensation and little or ineffective use of noncash rewards. A succinct overview of major compensation changes was presented in conjunction with the relevant laws. As the discussion evolved, the way to practically address and develop a theory of military compensation surfaced.

## HAY ASSOCIATES

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The panel presentation on the theory and philosophy of military compensation underscored the lack of a unifying, underlying theory in military compensation today.

Questions from the audience centered on the perceived value of benefits (e.g., retirement) and the use of nonpecuniary rewards (e.g., flextime, choice of duty assignment) with some interest in the theory and philosophy of military compensation.

The discussion on the employee's perceived value of benefits and nonpecuniary rewards addressed the employer's return on investment in these areas. That is, for every dollar the employer invests in an item what is the employee's perceived value of this item. Clearly, such an examination must be part of sound management practice in the Federal government as well as the private sector.

A methodology to measure the employee's perceived value of both cash and noncash benefits was provided to the audience. Such an approach enables the employer to quantitatively measure the return on benefits and/or ascertain the perceived monetary value of nonpecuniary factors. For example, how much is it worth to an employee to work a 40-hour week but still have every Friday afternoon off? For some individuals, this work-day arrangement may be worth \$1,000 a year, and hence a lower salary could be paid.

Obviously, numerous monetary and nonpecuniary factor trade-offs exist. Further information may be obtained by contacting the panel chairperson: Linda Pappas Hale at (202) 833-9250 or (703) 323-1677, or through the Army Research Institute MTA co-chairmen.

MILITARY COMPENSATION;  
AN OVERVIEW OF THE CASH  
PAY STRUCTURE, CHALLENGES  
FOR THE FUTURE

By Captain T.M. HALE, USN  
Head, Compensation Policy Branch,  
Office of the Chief of Naval Operations  
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Summary. The gradual deterioration of military pay in the 1970's because of the pay caps and reallocations of pay has been sharply reversed by major military pay acts in 1980 and 1981. A new pay standard is needed to measure military and civilian pay comparability and a tamper proof adjustment mechanism is necessary to ensure military pay does not again fall behind wages of comparable skills in the private sector. Special and incentive pays require updating and linkage to basic pay growth to maintain their value. Other compensation improvements are needed to maintain a competitive position with opportunities in industry.

The cash portions of active duty military pay can be broken down into the general categories of basic pay, housing and subsistence allowances, and special and incentive pays. Basic pay is the only cash element that is received by all members of the military service. Some members receive many of the pays, none receive all.

#### HISTORICAL EVALUATION OF PAY

Before the Joint Service Pay Act of 1922 was enacted, each service provided pay for its members by means of separate pay legislation. Although the pay was roughly equivalent for the Army and the Navy, there were significant differences. For many years Navy pay was differentiated between those serving on sea duty and those on shore duty. Officers on sea duty were viewed as serving normal type duty and received normal pay. Officers assigned ashore received less pay because they were viewed as serving something other than normal duty. At times, Marines were paid on Army scales and at times on Navy scales.

The Act of 1922 changed all that. It established uniformed base pay rates for officers of all services based on a combination of rank and length of service. Rental (quarters) and subsistence allowances reflected an equivalency of need for officers by differing by number of dependents in the case of the subsistence allowance and by rank and dependency status in the case of the rental allowance. Enlisted members were provided the cash allowances for quarters and subsistence when these items were not provided in kind.

Special and Incentive pays evolved over time to reflect the need for special compensation to attract and retain the force required to man and operate the military. Enlistment and reenlistment bonuses date back to the eighteenth century, and reflect the effectiveness of money in the decision process of joining or remaining in the military. Likewise, flight pay dates back to 1913 when extra compensation was needed as an attraction device to encourage members to undertake the very dangerous practice of flying the early flying machines. Diving pay dates back to the 1880's, when it was determined that the Navy needed its own group of experts in this occupational field. Parachute pay was instituted in 1941 when it became necessary to attract large numbers of soldiers to become proficient in this new warfare tactic.

The Career Compensation Act of 1949 provided the foundation for the pay and allowances system as it currently exists. The term "basic pay" replaced "base pay" and was based on rank and years of service. The Basic Allowance for Quarters (BAQ) and Basic Allowance for Subsistence (BAS) were established to replace the rental and subsistence allowances.

Both the 1922 and 1949 Acts followed major reduction in force levels after the world wars and were designed to provide a stable and meaningful compensation system for an older, more career oriented force that would experience slower promotions during peacetime service.

Military pay was adjusted periodically during the 1950's and 1960's but generally lagged wage growth in the private sector. It was not until the enactment of Public Law 90-207 (the Rivers Bill) in 1967 that military pay increases were linked with General Schedule pay increases for federal civil servants.

This law also established the concept of Regular Military Compensation (RMC) as the rough military equivalent of civilian pay. RMC consists of basic pay, BAS, BAQ, and tax advantage associated with the tax free allowances. The three cash elements of RMC were the basis for adjusting basic pay from 1967 to 1973 and RMC itself is often used as a means of comparing military and private sector wage growth. The definition was significantly broadened in the Nunn-Warner Amendment to the National Emergency Act of 1980 (hereafter called the Nunn-Warner Amendment) by the inclusion of the Variable Housing Allowance (VHA) and Overseas Station Housing Allowance (SHA) in the definition.

#### CURRENT CASH PAY STRUCTURE

The elements that currently comprise the military cash pay structure are shown on Table 1. The length of the list is much more impressive than its effect. Most of the force does not receive more than basic pay and one or two of the special and incentive pays or allowances. The law prohibits the payment of more than one hazardous duty pay to any individual with the single exception of some special forces who may receive two hazardous duty pays. Special pays are also quite limited in application. For example, one of the costlier special pays, career sea pay, accrues to only 19 per cent of the Navy force and slightly over 5 per cent of the entire military. Submarine duty incentive pay is paid to only about 5 per cent of the Navy force, while parachute duty pay accrues to less than 2 per cent of the total military force. All of the duty-related special and incentive pays require performance in an unusually hazardous or arduous duty, either over the course of a career or in a special duty assignment in order to acquire entitlement to the pay. Because of the relatively small numbers that receive most special and incentive pays and the relative insignificance of most of the pays compared to basic pay, it has been difficult to justify increases in economic terms (that is, the effect of pay increases on accession and retention). As a result, many of these pays have been allowed to stagnate over time and have lost much of their value to the member. Table 2 shows when some of the special and incentive pays were last changed and that amount that would have to be paid today if the pay had been adjusted for inflation.

## BASIC PAY AND ALLOWANCES

The effect of the Rivers Amendment (1967) was to link military pay indirectly with wage growth in the private sector through the federal civil service pay link with the Professional, Administrative, Technical and Clerical (PATC) wage survey. Using PATC wage survey data, general schedule wages were to be annually adjusted to match wage levels in the private sector. Military pay was then to be adjusted an equivalent amount. Unfortunately, it hasn't worked as intended. Presidential pay caps in 1975, 1978 and 1979 and reallocation of pay increases from basic pay into the quarters allowance (which many members do not receive) in 1976 and 1977 had the effect of reducing military pay when compared to wage growth in the private sector. Table 3 shows the growth of military pay (expressed as RMC) from March 1971 through FY 1980 compared to illustrative standards since the advent of the all volunteer force. The relative loss of military pay compared to the other standards help explain why retention in the career force reached new lows by mid-1979 and the service began to experience severe difficulties in meeting recruiting goals.

## PAY IMPROVEMENTS

In an attempt to remedy this situation, the services, working with OSD and the Congress were able to influence the enactment of three significant pay bills in 1980. The Nunn-Warner Amendment, the 1981 DOD Authorization Act, and the Military Pay and Benefits Act of 1980 together accounted for more than twenty improvements in military pay, benefits and reimbursements. Most significantly, the laws provided for an 11.7 per cent across the board pay increase and increases in flight, sea, and submarine pay. The laws also provided much needed improvements in reimbursements for government directed travel. At this writing, there is another significant pay bill about to be enacted which, by itself, will provide the most sweeping changes in military compensation since the 1949 Career Compensation Act. In addition to an average 14.3 percent increase in basic pays, a new temporary lodging allowance will be established to help defray the cost of permanent change of station moves. Also, new travel reimbursements will be established for emergency leave for members at overseas locations and there are several new provisions which will expand entitlements to store household effects. The bill also provides for increases in flight pay, diving pay, and extends hazardous pays to additional categories of duty.

The FY 1982 pay raise will restore military pay to roughly the relative levels that existed at the beginning of the AVF. The other compensation improvements will serve to alleviate many of the financial hardships and sacrifices that are incurred as a direct result of military service.

## CHALLENGES FOR THE FUTURE

Even the most optimistic of the economists on the national scene project inflation at an annual rate of 6 to 10 per cent for the foreseeable future. At this rate there will be a continuing need to update special and incentive pays lest they become valueless over time. More importantly, the prospect of high inflation requires that the pay standard be developed that will ensure that military pay will not lag wage growth in the private sector. An adequate pay standard would consist of wage surveys of representative skills in the military which is flexible enough to permit automatic annual adjustments in military pay and comprehensive enough to cover all of the pay grades. Clearly, the current indirect link to PATC through the civil service wage structure does not meet this test. PATC represents only about 12 per cent of the skills in the military and does not cover most combat skills, the basic function of the Armed Forces, at all. Also, the current adjustment mechanism is not tamper proof as witnessed by the presidential pay caps and reallocation. A recent study<sup>1</sup> determined that a combination of PATC and area wage surveys (AWS) could provide coverage to about 70 per cent of the enlisted military force and has potential as a new standard upon which to base military pay growth. Along with a new standard, an adjustment mechanism should be devised to ensure that artificial limits are not introduced to satisfy short term political concerns as have been the case in the past.

The objective of a new military pay standard would be to remove pay as a major item of concern to the military member. The demands of military service are such that even minor pay disparities tend to be magnified over time and are quickly added to the list of dissatisfiers that mitigate against continued service. Since the services have to "grow" their own personnel, each careerist lost through unexpected attrition causes severe ripples in the force structure. Not only are the years of experience lost but each lost careerist requires several additional recruits to eventually provide the one placement in the career force.

The challenge then for the future is to execute a compensation strategy that focuses on ways to minimize pay and reimbursement irritates while providing a system of compensation sufficient to attract and retain the quality and quantity of the force needed to carry out the defense mission.

1. Rader, Norvin E., et. al., "Pay Principles and Standards", General Research Corporation Report 1207-01-81-CR prepared for the Department of the Navy, General Research Corp., McLean VA., 1981, P3-1

The elements of this compensation strategy would include:

- Development of a representative pay standard upon which to periodically adjust military pay
- Establishment of a pay adjustment mechanism to ensure that military pay does not fall behind the pay standard that has been developed
- Remove artificial pay limitations, such as the senior officer pay ceiling, from the compensation system
- Update special and incentive pays and establish a linkage between the two and basic pay growth to avoid future losses of pay value
- Provide travel reimbursements sufficient to fully reimburse the member for the cost of government directed travel
- Maintain a competitive benefit program to include fully funded medical and dental care programs for the member and his or her dependents.

This program, in conjunction with a comprehensive non-pecuniary reward system, can be expected to provide the solid underpinning to sustain the defense force of the future.

#### TABLE 1

#### MILITARY PAY CASH STRUCTURE

##### Basic Pay Allowances

- Basic Allowance for Quarters
- Basic Allowance for Subsistence
- Variable Housing Allowance
- Family Separation Allowance
- Overseas Station Allowance
  - Housing Allowance
  - Cost of Living Allowance
- Clothing Monetary Allowance
- Officer Uniform Allowance
- Personal Money Allowance (Pay grade 0-9 and above)

##### Special Pay

- Diving Pay
- Continuation Pay for Nuclear Qualified Officers
- Nuclear Career Accession Bonus
- Hostile Fire Pay
- Nuclear Career Annual Incentive Bon: s
- Career Sea Pay
- Certain Places Pay
- Special Pay for Medical, Optometry, Dental and Veterinary Officers



### Special Pay (cont.)

- Special Continuation Pay for Medical and Dental Officers
- Variable Incentive Pay for Medical Officers
- Responsibility Pay (Pay grades O-4 to O-6 only)
- Proficiency Pay
- Selective Reenlistment Bonus
- Enlistment Bonus
- Overseas Extension Pay

### Incentive Pay

- Aviation Career Incentive Pay
- Hazardous Duty Incentive Pay
- Submarine Duty Incentive Pay
- Parachute Duty Pay
- Flight Deck Duty Pay
- Demolition Duty Pay
- Experimental Stress Duty Pay
- Leprosarium Duty Pay

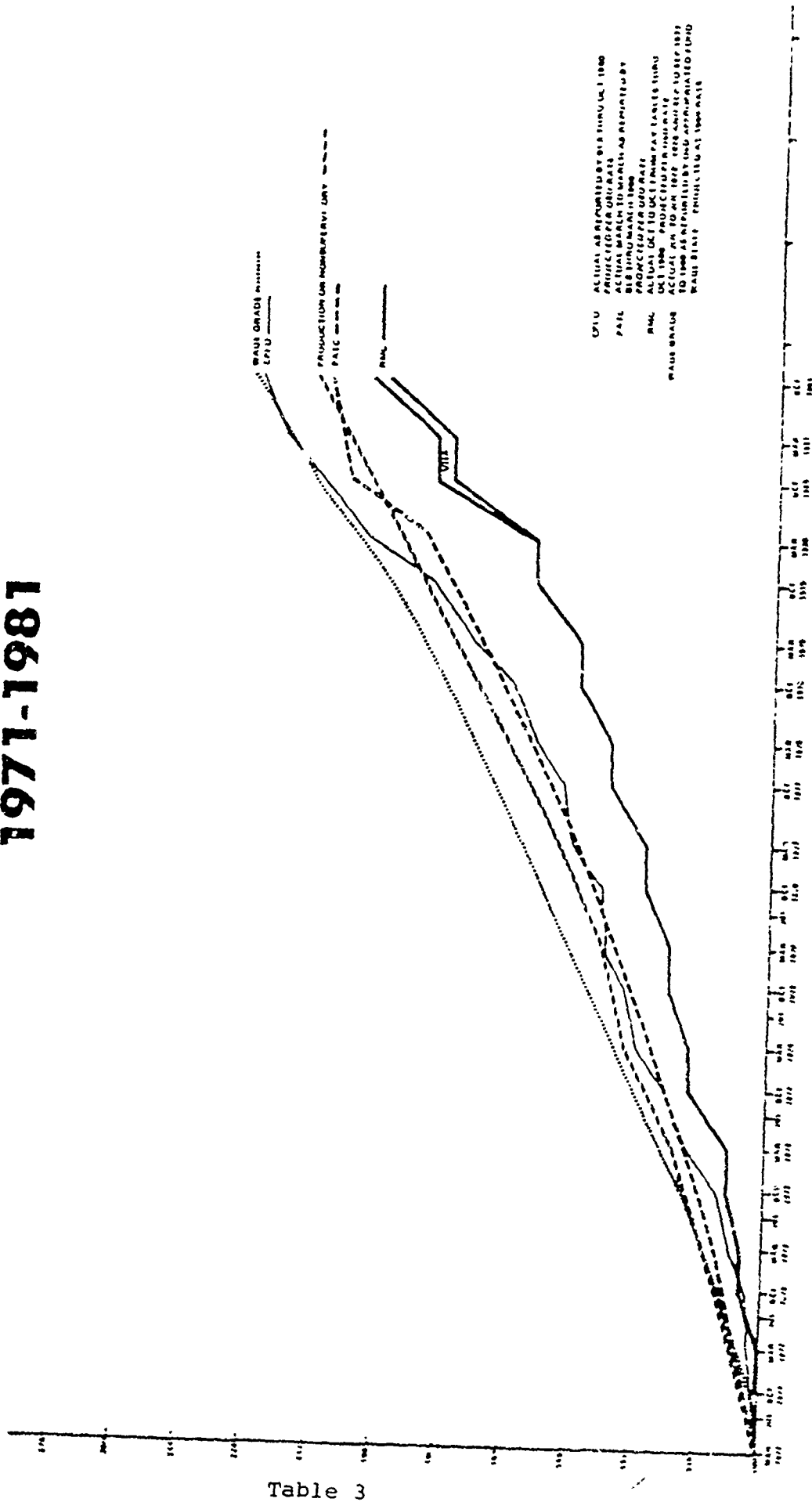
TABLE 2

### Special and Incentive Pay Evaluation (Selected Examples)

<u>Pay</u>	Current Value (monthly)	Year Last changed	Value if Adjusted for Inflation (Note 1)
Hostile Fire Pay	\$65	1965	\$192
Certain Places Pay	\$8-22.50	1949	\$31-88
Responsibility Pay	\$50-150	1958	\$161-340
Proficiency Pay	up to \$150	1958	up to \$340
Parachute Duty Pay	\$55-110	1955	\$191-383
Flight Deck Pay	\$55-110	1965	\$163-325
Demolition Pay	\$55-110	1955	\$191-383
Experimental Stress Pay	\$55-110	1957	\$182-364
Family Separation Allowance	\$30	1963	\$91

Note 1. Assumes inflation rate of 10% for FY 1981.

# **RMC** **COMPARED TO SELECTED EXTERNAL STANDARDS** **1971-1981**



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